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July 28, 1994

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Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N. W.
Washington, D.C. 20554

In re: In the Matter of Billed Party Preference for 0+ interLATA Calls, CC Docket No. 92-77, Comments of Midwest Independent Coin Payphone Association, Our file #94-306.26

Dear Mr. Caton:

Enclosed are the original and nine (9) copies of the Comments of Midwest Independent Coin Payphone Association which I am filing in the above rulemaking.

Very truly yours,

William M. Barvick

William M. Barvick

WMB:mb
Enclosures

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BEFORE THE FEDERAL COMMUNICATIONS COMMISSION

Washington, D. C. 20554

In the Matter of Billed)
 Party Preference for)
 0 + InterLATA Calls) CC Docket No. 92-77

COMMENTS OF MIDWEST INDEPENDENT COIN
PAYPHONE ASSOCIATION

JUL 29 1994

The Midwest Independent Coin Payphone Association (MICPA) is an association of private pay phone providers in the State of Missouri. It is submitting these Comments in response to the Commission's Further Notice of Proposed Rulemaking, which was released on June 6, 1994.

Introduction

MICPA appreciates the Commission's invitation to submit further comments in this very important matter. Although the Notice indicates that the Commission has arrived at certain conclusions, MICPA reads the Notice as indicating an openness to receive comments on all matters that are germane to a Commission decision. We will not burden the Commission with a restatement of arguments that we have previously made, however, responses to matters on which additional comments have been requested may produce some familiar themes.

Billed Party Preference Benefits

Billed Party Preference will be a far-reaching change that will affect every telephone subscriber in the country. In its Notice the Commission has recognized that the financial

resources required to implement billed party preference are staggering. (In Missouri a billion dollars is still a lot of money.) Financing and implementing billed party preference will undoubtedly cause other projects upon which the money could be spent to be delayed or abandoned altogether. In the current environment, the priorities involved in other investments would be market driven. An order directing the implementation of billed party preference would be an administrative decision to override market driven investment decisions on telecommunications infrastructure. In light of this, it is extremely important that the reasons that drive this decision be based on hard facts and sound logic. These comments on benefits are submitted in response to the request for comments contained in paragraph 18 of the Notice.

In November 1992, the Commission issued "The Telephone Operator Consumer Service Improvement Act of 1990 Final Report". In that Report the Commission found and concluded that:

- (1) The statutory objectives of TOCSIA are being achieved. Consumers are being protected from unfair and deceptive practices relating to their use of operator services to place interstate telephone calls. Further, consumers have an opportunity to make informed choices in making such calls.
- (2) Market forces are securing just and reasonable rates.

Since there is nothing in the Notice that contradicts those findings, we believe that it is fair to say that billed party preference is not necessary to eliminate unfair practices, provide choice and insure just and reasonable rates. The Notice suggests additional public benefits that will be examined in these comments.

1. Billed party preference would facilitate access to the telephone network by eliminating the need for callers to use access codes on operator services calls - The

dictionary defines facilitate as "to make easy". Access to the telephone network is currently obtained by dialing "0" or "1" plus the number called. Billed party preference will not make access to the telephone network any easier than that. **A correct statement of what it will do would be that billed party preference will make access to a single preselected operator service provider easier.** We believe that this is an important distinction to keep in mind. If billed party preference is a public benefit, it should be able to withstand a correct description of the benefit. Advancing as a benefit something which billed party preference does not do suggests that the real benefit is too narrow to warrant this administrative intrusion into the marketplace.

2. **Avoiding the inconvenience of using access codes** - Access codes vary in length. They may be as simple as 10 ATT or 10-333 (Sprint). They may also involve an 800 number which would require one to remember a seven digit number to go along with 1-800. Since most people can remember at least two seven-digit numbers (home and office phones) the "burden" of remembering a third number should not be exaggerated.¹ This is particularly true since the callers who will be making the bulk of these calls are intelligent business users for whom remembering three or seven numbers is one of the least challenging

¹ We conclude that market forces are securing rates that are just and reasonable. Most significantly, consumers are protected from unreasonably high rates through the statutory and regulatory mandate of dial-around access options.

Our analysis of consumer behavior in the marketplace for operator service demonstrates that consumers are aggressively taking advantage of these opportunities. For example, for 1991, approximately one-third of all revenues from "away-from-home" calls were derived from dial-around traffic. As 10XXX unblocking proceeds in accordance with the schedule the Commission has mandated, and as consumers become increasingly familiar with these options, dial-around traffic will increase. Final TOCSIA Report, pp. 30, 31

of their job requirements. As far as the time savings, we are talking about less than five seconds a call. (While it takes less than five seconds to dial ten numbers, the time saved by billed party preference would be more than offset by the need for two operators to be involved in handling the call.) Standing by itself, relief from the burden of memorizing seven numbers hardly justifies the time and effort of this Commission and its Staff and the expenditure of more than a billion dollars.

3. Savings to consumers achieved by bypassing higher cost operator services providers - In its Notice, the Commission has identified the annual cost of billed party preference as \$420 million, (para. 20).² It has further identified the savings attributable to directing callers from higher priced operator service providers to lower cost providers to be \$280 million, (para. 11).³ Spending \$420 million to save \$280 million is not a good investment by any measure.

The market for long distance telephone service from aggregators like pay phones is one in which prices are fluid and constantly changing. If the Commission premises a decision in favor of billed party preference on savings achieved through avoiding high cost operator service providers, it should conduct its own up-to-date investigation into the current charges for these services. It should not rely on the 1991 data contained in the Final TOCSIA Report. For example, the Notice cites an average charge of \$.34 per minute from operator services provided by AT&T, Sprint and MCI. In Missouri, calls can be made from

² It would appear that these costs will begin to accrue on the date that billed party preference is mandated.

³ The estimated savings will not begin to accrue until billed party preference became available in 1997.

independent pay phones to any place in the country for \$.75 for three (3) minutes, and a flat \$.25 for each additional minute without the use of an operator. (The caller just puts three quarters in the phone). Debit cards have also entered the market for long distance calling. Their charges are typically below the average \$.34 per minute cited in the Notice as the savings benchmark. These are just two developments that have occurred since the original Notice in this case. What other alternatives are now available? What has been their rate of growth? What has been their impact on the market for operator services and the prices charged by operator service providers? Any inroads into the market for operator services by debit cards or sent-paid pay phone calls will reduce the "savings" attributable to billed party preference. The record in this case contains no information on such matters. In addition, we are submitting as an attachment to these comments a copy of an exhibit prepared in November 1992 by the Staff of the Missouri Public Service Commission. The exhibit shows the intra state operator service charges in effect in Missouri on November 10, 1992. The Commission will note that out of thirty three (33) tariffed rates for operator services only four (4) were higher than the AT&T rates.⁴ Since the Commission has also expressed the hope that billed party preference would be adopted by the States, it might also be germane to examine charges for intra state operator services. Under the tariffed rates shown on the attached exhibit, it could be argued that it is not in the public interest to adopt a system that could lock 60% plus of all telephone subscribers into AT&T operator services.

In considering changes past and imminent, one cannot ignore the expected entry of

⁴ The Commission will also note that they are all higher than debit card charges and the \$.75 cash pay phone call.

the regional Bell operating companies into the long distance market. The Commission knows of the ongoing efforts of the regional Bell operating companies to obtain permission to provide interLATA long distance service. It is fair to say that there is general agreement that these companies will be allowed into that market in the not too distant future. The only real questions are when and under what circumstances. It is also reasonable to expect their entry in the time frame shortly after the 1997 introduction of billed party preference. Any calculation of savings resulting from shifts in operator service providers must take into account the shifts that would naturally occur without the expense of billed party preference as a result of the impact of the entry of these giants into the operator services market. However, the Notice has analyzed billed party preference without the slightest attempt to evaluate this change in the operator services landscape that is looming on the horizon. It is as if the Commission was the only one in the world who was unaware of what is taking place in the Congress and the courts.

In paragraph 12 of the Notice, the Commission calculated another \$340 million in savings allegedly attributable to the elimination of commission payments to premises owners. Without this \$340 million billed party preference would produce a net loss to consumers. There are a number of problems with using this figure and the elimination of commissions as an addition to the calculated benefits. First, there is no guarantee that operator service providers will pass all or even any savings along to end users in the form of lower rates. It is just as reasonable to assume that they will keep all or part of the reduction in their expenses that result from any elimination of commission payments as it is to assume that it all will be flowed through to end users in lower rates. As smaller competitors are eliminated

from the marketplace by billed party preference, there will be less pressure on the big three to reduce rates for operator services.

Second, as noted later in these comments, payments to location owners is rent. It is rent for space and an opportunity to make money. It is not reasonable to assume that all location owners will passively accept the elimination of the rent that they receive. Many location owners will have leverage to resist a cut-off of these rental payments. This will be particularly true of institutional customers. For example, a hospital or college or hotel with significant long distance traffic of its own can condition its selection of an IXC as its presubscribed 1 plus carrier upon the IXC's agreement to pay commissions on calls made from public phones that are used by patients, residents or transients. Needless to say, unless IXCs paid commissions on traffic handled by competitors, the carrier with the most 1 plus presubscriptions, namely AT&T, would be in a position to make the highest commission payments since the law of averages would indicate that most calls would be going to someone who had designated AT&T as the presubscribed operator service provider. The Notice fails to recognize this probability and, as a result, includes in its totals sums that are still likely to be paid to many aggregators even with the adoption of billed party preference.

Third, the Notice assumes that all of the commission payments are going to location owners. This is not true. Some portion of those payments now go to private pay telephone providers. The Notice makes no effort to calculate these amounts, nor does it consider the impact that a loss of these revenues will have on the pay telephone industry. The Notice acknowledges a need to increase compensation to pay phone providers, but it miscalculates the amounts that would be required. It also may be putting in place a system under which

pay phone compensation will be one of the last rates regulated by the Commission.

Commissions on long distance calls are the lifeblood of the independent pay phone industry. The center of all revenue flow comes from a pay phone located at some public place. These places are owned by people who have two distinct choices of pay phone providers. The first is the local exchange company. In the Southwestern Bell service area over 90% of all pay phones are Southwestern Bell (SWB) pay phones. The second source is one of the independent pay phone providers serving the area.

The inducements to accept a SWB pay phone or an independent pay phone include the commission payments received by the location owner from the phone. Southwestern Bell does not provide interLATA long distance service so a Commission decision that has the practical effect of eliminating commissions on interLATA and interstate calls will have no financial impact on SWB. For independent pay phone providers the effect of that same decision will be devastating as it eliminates one of their most important sources of income.

In 1985 SWB offered location owners a 10% commission on coins from local traffic. In 1994 SWB will offer as much as 27% on all coin and all non-coin intraLATA traffic. SWB's ability to make commission payments in these amounts does not come from its local and intraLATA pay phone revenues. As long as ten years ago, SWB admitted in testimony before the Missouri Public Service Commission that it lost money on its local pay phone service. It has restated that its pay phones lose money on local calls as recently as 1993. How then can it afford to pay any commissions? The answer is simply that its pay phones are subsidized by the non-pay phone aspects of its operation.

To be able to compete with SWB for locations, the independent pay phone provider

must be able to match its commission payments to location owners. If, as the Notice anticipates, billed party preference eliminates commissions on interLATA traffic, it will eliminate the independent pay phone provider's sole source of income for paying commissions. SWB's market share will then rise from 90% to 100%.

The Notice leaves open the question of the payment of some compensation for lost traffic as a result of the implementation of billed party preference. However, it makes no real effort to calculate the amounts that would be required to keep independent pay phones viable as competitors of local exchange companies. The six dollars a month currently paid for dial around traffic is in no way a fair measure of the amount that will be required. Independent pay phones may now pay that much for selective class of call screening with another six dollars a month for billed number screening.

In an environment where pay phone providers received nothing for dial around traffic, the opportunity to receive \$6.00 a month for lost dial around traffic reduced revenue losses caused by dial around. It did not fully compensate pay phone providers for the lost traffic. However, if one accepted \$6.00 a month as a rough estimate to compensate for the loss of roughly 30% of usage when the rate was set, it is unreasonable to assume that \$12.00 a month would be reasonable compensation for the loss of 100% of the traffic. Using the Commission's own number of \$6.00 a month currently, one should expect pay phone compensation of at least \$18.00 a month or a gross amount of at least \$44 million instead of the \$22 million relied upon in the Notice. However, any assumption based on a continuation of the current flat \$6.00 a month or any multiple of that amount, ignores the Commission's own conclusion that the fairest method of compensation for dial around traffic

is per call compensation. Once per call compensation is in place, there are two ways to set the rate. One is through contract negotiations between IXC's and pay phone providers. The other would be through a proceeding before the Commission. If the private pay phone industry is to remain viable, the per call compensation rate must be reasonable. Six or even eighteen dollars a month for each phone regardless of call volumes will not support the independent pay phone industry. In calculating the financial benefits of billed party preference, it is essential that the Commission address the question of the amount of reasonable compensation for lost pay phone traffic. Any gross savings estimated from billed party preference would have to be reduced by multiplying the per call rate times the number of calls from pay phones. The Notice fails to make any such calculation.

Without the amounts "saved" from the elimination of commissions, there is no savings from billed party preference. The savings achieved through billed party preference ought to be an important enough consideration that the Commission should get up-to-date, accurate information on all charges and call volumes. The data upon which the Commission has drawn its conclusions is based on unsupported assumptions, stale calculations of market share, a failure to consider major changes that are imminent in the operator services market and inaccurate calculations of payments that will be required to keep private pay phone providers from being eliminated.

4. Guaranteed automatic routing to the customer's preferred carrier - There are two benefits here. The first is ease of access. The second is perceived monetary savings. Access to the preselected carriers would undoubtedly be easier. Monetary savings would be more questionable.

It is also important to keep in mind that in light of the different usage patterns of end users, any savings to particular individuals will come as a result of a subsidy and the imposition of increased costs on other users of operator services. The person satisfied with using an access number, credit card or debit card will bear the additional cost of billed party preference to facilitate access to the presubscribed operator service provider by the infrequent caller.

5. OSPs would refocus their competitive efforts on end users rather than on commission payments to premises owners - The commission payment to the premises owner is rent. The premises owner provides space for equipment and a safe location for public calling. The Notice indicates an unreasonable hostility to the payment of rent to location owners. One may fairly ask, does the Commission expect premises owners to provide rent-free space so that telecommunications companies can earn profits using someone else's property? We would submit that an expectation that free space be provided is unreasonable.

If the Commission does not expect owners to provide free space, then one may inquire, what does the Commission consider to be a reasonable rental? Has the Commission conducted any study to support the assertion that certain operator services charges are high because of the commission levels paid to premises owners? As indicated earlier in these comments, MICPA believes that the driving force on commission levels is the local exchange companies who are not providing interLATA service. We would submit that the Notice's critique of commission payments is more visceral than factual.

The Notice assumes that billed party preference will reduce the value of having an

aggregator location to zero since virtually no calls will go to the presubscribed carrier. As noted above, aggregator locations have value to IXC's and many location owners will find ways of extracting that value from the carriers.

The Commission does not indicate that it sees any problem with the operator service rates charged by AT&T, MCI and Sprint. In addition, these companies have already initiated consumer focused advertising campaigns aimed at encouraging end users to use their operator services, (See attached exhibits 2 and 3). As a result, when the Commission speaks of operator service providers refocusing their competitive efforts, one must conclude that the Commission is expressing the hope or expectation that third tier operator services providers will refocus their marketing efforts from location owners to end users. The Notice assumes that a refocusing will occur, but neglects to give any indication of how this might occur.

End users of telephone service are not all users of away-from-home calling, and among those who do make such calls some make more than others. To be effective any consumer oriented marketing program will have to identify and target those persons who make away-from-home calls and those persons who make them frequently. Who has this information? Two classes of businesses would have this information. First, local exchange companies who handle the billing of calls would know the identity of their subscribers who make away-from-home calls. Second, companies that have issued telephone calling cards would know the calling practices of their card holders. As the dominant credit card issuer, AT&T would be in the best position to pursue these customers. Small operator service providers would either have no information on away-from-home callers or fragmented information that would not permit them to identify frequent away-from-home callers.

The Notice and the information on which it relies contains no data on the cost to the operator services providers of such an effort. Nor does it contain any information on how many of them would have the financial resources to compete with the likes of AT&T, MCI and Sprint in consumer focused marketing efforts.⁵ If the Commission is indifferent to such questions and is only interested in disciplining third tier operator service providers or in driving them out of business, there are certainly avenues other than billed party preference that are more direct, simple and less costly.⁶

6. Enhancing Competition with AT&T - The Notice indicates that one of the things that billed party preference would do is enhance competition with AT&T. This conclusion is based on certain factual assumptions about operator service business at traffic aggregators for which there is no factual basis in the Notice. What percentage of pay phones, hotels and other institutions use AT&T? It would appear that regardless of the answer enhancing competition with AT&T would not be a reason for adopting billed party preference. For example, if a large number of aggregators now use AT&T, the previously described "savings" resulting from causing people to migrate from other operator services to AT&T would be diminished or non-existent. On the other hand, if AT&T has a small percentage of the aggregator traffic, then its alleged advantages in securing operator service business are really not advantages that require billed party preference to overcome. Also, as noted above,

⁵ "The data indicate that most OSPs are quite small. The attached charts show that between 65 per cent and 70 per cent of all OSPs reporting had investment, expenses and revenues of less than \$500,000." Final TOCSIA Report, p. 18.

⁶ See section entitled, "Rate Review Orders", in the Final TOCSIA Report where the Commission describes rate reductions of as much as 36% in response to orders directing twelve OSPs to demonstrate that their rates were reasonable.

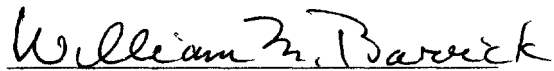
AT&T's knowledge on user practices gained through its credit cards would give it an advantage in pursuing individual end users for presubscription. Finally, the Notice tentatively decided that when users are given the opportunity to select an operator service provider those who do not make a choice will default to their 1 plus carrier. The Notice assumes that large numbers of people would have to be assigned. As the carrier with the largest presubscription base, this would give AT&T 60% or more of the aggregator generated business. The Notice is silent on whether this would be an increase or a decrease for AT&T.

7. **Benefits - Conclusion** - While the Commission has solicited comments on the Benefits section of the Notice, one would have to be a wooden head not to know that convincing the Commission to reconsider the conclusions contained in that portion of the Notice will not be easy. However, we submit these additional comments convinced that the Commission will give them its careful consideration. As noted at the beginning of these comments, the Commission has already determined that billed party preference is not required to eliminate unfair practices, provide choice and insure just and reasonable rates. The question that it must answer is whether the "additional benefits" are sufficient to warrant the added cost and the disruptions in the market place that billed party preference will cause.

In closing, we would like to stress a few points. This inquiry was initiated in April 1992. More than two years have elapsed since then. Many things have changed and many new products have been introduced into the marketplace. The introduction of billed party preference will affect the lives and the fortunes of many businesses. While the current

marketplace has created jobs and economic growth, the exact opposite can be an expected side effect as billed party preference forces many small companies out of business. MICPA would urge the Commission to examine the new landscape to determine whether conclusions based on information gathered in 1992 are still valid in 1994 for a system that will not become operational until 1997.

Respectfully submitted,

A handwritten signature in cursive script that reads "William M. Barvick". The signature is written in dark ink and is positioned above the printed name.

William M. Barvick

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(314) 634-4737

**Attorney for Midwest Independent Coin
Payphone Association**

Summary of Missouri Tariffed Operator Services and Credit Card Surcharges

10-Nov-92

Company Name		Operator Services				Credit Card Surcharges
		Station to Station		Person to Person		
		3rd #	Collect	3rd #	Collect	
1	Affinity Fund, Inc.					\$0.25
2	Alinet Communications Service, Inc.	\$1.75	\$1.75	\$3.50	\$3.50	
3	Alternate Communications Technology	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
4	AmeriCall Dial "O" Services	\$1.00	\$1.00	\$2.35	\$2.35	\$0.45
	(IntraLATA Operator Services)	\$1.05	\$1.05	\$2.40	\$2.40	\$0.30
5	American Communications, Inc.	\$1.25		\$3.00		\$0.30
	Operator Svcs. available only billed to ACI credit card					
6	American Network Exchange	\$0.50	\$1.05	\$2.40	\$2.40	\$0.50
7	American Telephone Network, Inc.					\$0.50
8	Amerifax, Inc.					\$0.35
9	Ascom Autotele Communications, Ltd.	\$0.50	\$1.05	\$2.40	\$2.40	\$0.50
10	ATC, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
11	AT&T	\$1.47	\$1.47	\$2.95	\$2.95	\$0.65
12	Branson Telephone	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75
13	Cable & Wireless	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
14	Convergent Comm. d/b/a Alumni Network					\$0.50
15	Corporate Telemanagement Group					\$0.55
16	Dial U.S.	\$0.50	\$1.05	\$2.40	\$2.40	\$0.30
17	Fiberline Network Communications	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
18	Intellicall Operator Services	\$1.70	\$1.70	\$4.00	\$4.00	\$1.25
	(IntraLATA Operator Services)	\$1.10	\$1.10	\$2.40	\$2.40	\$0.65
19	International Telecharge, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
20	International Telecomm Exchange					\$0.55
21	Intertel Net Solutions	\$1.05	\$1.55	\$2.40	\$3.00	
22	LDDS of Kansas City	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
23	Long Distance Network, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$1.05
24	Network Svcs. d/b/a (Long Dist. Net. Svcs.)					\$0.55
25	LTS, Inc.			\$1.50	\$1.50	
26	Matrix Telecom					\$0.40
27	MCI	\$1.05	\$1.05	\$2.40	\$2.40	\$0.60
28	Metromedia Communications Corp.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
29	MidAmerican Long Distance Co.					\$0.70
30	Mid-Com Comm., Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.55
31	Midwest Fibernet					\$0.50
32	NCN Communications	\$1.75	\$1.75	\$3.50	\$3.50	\$0.50
33	Norstan Network Services, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.25
34	Opticom	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
35	Phoenix Network Inc.					\$0.55
36	Prime Link Communications					\$0.35
37	Quest Communications, Corp.	\$1.47	\$1.47	\$2.95	\$2.95	\$0.65
38	Tel-Central of Jefferson City					\$0.55
39	Teleconnect Company, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
40	Telegroup					\$0.40
41	Telenational Communications Unlimited					\$0.25
42	Telenet Communications					\$0.55
43	United Telephone Long Distance	\$1.05	\$1.05	\$1.60	\$1.60	\$0.50
44	US Sprint Comm. Services, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
45	U.S. Long Distance, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
	(IntraLATA Operator Services)	\$1.05	\$1.05	\$2.40	\$2.40	\$0.30
46	Value-Added Communications, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
47	Washington Hogan Company					\$0.50
48	Wital, Inc.	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50
49	World One Communications	\$1.05	\$1.05	\$2.40	\$2.40	\$0.50

Operator Services				Credit Card Surcharge
Station to Station		Person to Person		
3rd #	Collected	3rd #	Collect	

Competitive Company Averages	\$1.0811	\$1.1739	\$2.4886	\$2.4912	\$0.5316
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Range	High	\$1.75	\$1.75	\$4.00	\$4.00	\$1.75
		Low	\$0.50	\$1.00	\$1.50	\$0.25

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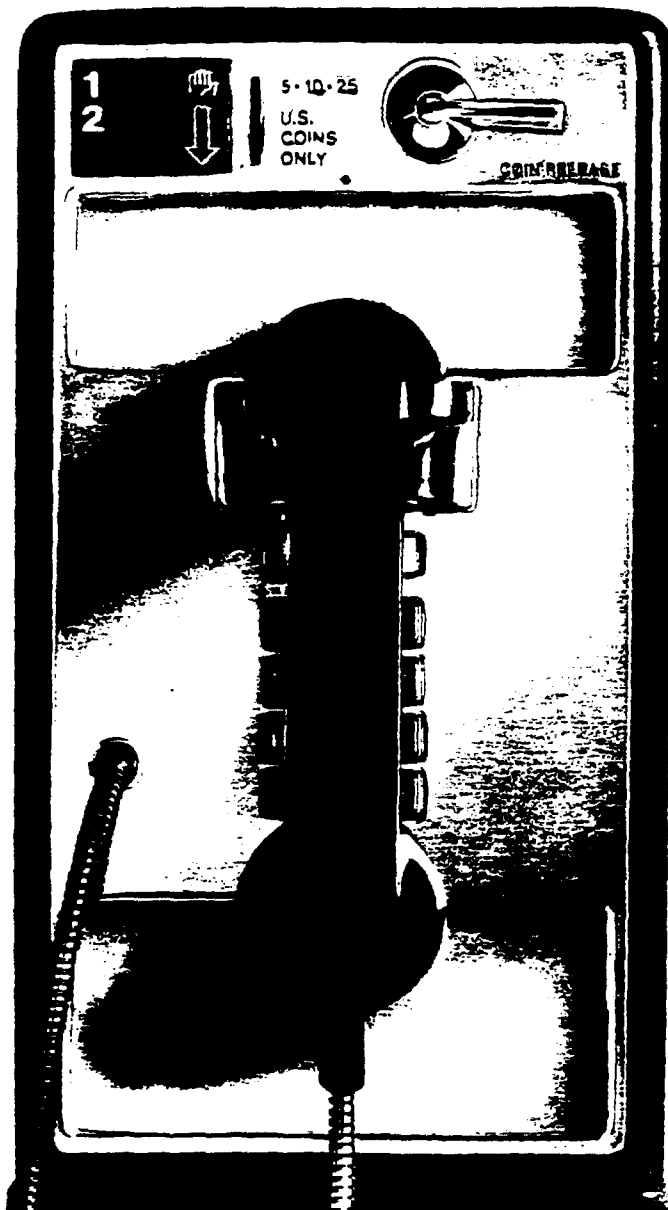


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Ex 3